

August 29, 1967

CONGRESSIONAL RECORD — APPENDIX

A 4381

through the underbrush and went directly to the point.

In order that his statement may receive wider attention, I insert his statement in the RECORD following my remarks:

STATEMENT ON PRESIDENT'S TAX INCREASE PROPOSALS BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS

(By William Jackman, president, Investors, League, Inc., August 25, 1967)

My name is William Jackman. I am President of the Investors League, a non-profit, non-partisan organization of thousands of individual investors from every state in the nation with offices at 84 Fifth Avenue, New York, New York.

Mr. Chairman and distinguished members of your Committee, I wish to thank you for the privilege of presenting to you our views on the President's proposals to increase corporate and individual income taxes now before you for consideration.

The President asks for an individual and corporate income tax surcharge of 10% starting on October 1, 1967 for individuals and July 1, 1967 for corporations. These surcharges would be "temporary" and expire in June 1969. He also asks for an extension of automobile and telephone excise taxes.

The principal reasons given by the Administration for these recommendations are to head off inflation and soaring interest rates.

The proceeds of \$7.4 billions presumably would be used to reduce the 1968 federal budget deficit now estimated at \$29 billions (instead of the \$8 billions estimated at the beginning of the year).

PROPOSALS WOULD BE INEFFECTIVE

Gentlemen, it is our opinion, that these tax increases are unnecessary at this time and would prove ineffective. The only way to put our government's financial house in order would be to drastically curtail non-defense federal spending programs and to defer other ones now under consideration.

Every businessman knows that high taxes, just like high wages, are inflationary. They represent costs of doing business, and these increased costs, when they exceed increased production, must be passed along in higher prices to the consumer.

As regards higher interest rates, excessive government debt competes for the people's savings and naturally forces up interest rates. This is exactly what has been happening in recent years. In the long run, interest rates are controlled by the laws of supply and demand, and not by government fiat.

CUT FEDERAL SPENDING

Since 1960 the U.S. population has grown by only 10%. In the same period, the personnel comprising the civilian bureaucracy of the Federal government has grown by 25%; the cost of government payrolls, including military, has grown by 75%; the total of all government spending has grown by 83%; non-defense expenditures of the Federal government are up 97%.

It is obvious that the only sensible step toward curbing inflation and huge deficits, is to cut federal spending.

There is a bill, S. 538, passed by the Senate in May, now pending before the House. It provides for creation of a Joint Committee on the Budget. It should be passed.

A NEW COMMISSION NEEDED

A more fundamental, additional approach to expenditure control is envisioned in a proposal by the distinguished Chairman of this Committee, Congressman Wilbur D. Mills. His bill, H.R. 10520 would create a 12-member bipartisan Government Program Evaluation Commission, its members drawn from private life, to examine all Federal program and activities, old, new and projected, and assign priorities among them. The yardstick would be "the fundamental

needs and vital objectives of the Nation". The Commission would ask of each program: What is its effectiveness in terms of present and future costs? Should it be continued? If so, at what level of funding? A companion Senate bill, S. 2032, has been introduced by Sen. William Proxmire (D-Wis.), Chairman of the Joint Economic Committee. He calls the idea "a fresh look" at government expenditures needed to instruct Congress and the President as to how much should be appropriated in a given fiscal year for each Federal activity.

The rationale of expenditure control was outlined by Rep. Mills in a speech in late May, before he introduced H.R. 10520. Among his points: After taxes were reduced in 1964, it appeared that the rate of Federal spending had moderated.

But in September 1965, the spending rate rose quickly and this year, if certain contingencies occur, the Nation is faced with the prospect of a possible fiscal year 1968 budget deficit of nearly \$30 billion—the largest since World War II. Though urgent defense costs account for part of the spending rise, non-defense costs also have risen and this is where controls must be applied. First-year costs of a new program are only part of the story; of more concern is what future costs will be—5, 10 even 15 years ahead. As these rise, they can impose a "straitjacket" on tax policy and endanger the desired goal of spending controls coupled with "regular, frequent and significant reductions in tax rates" which will free the private economy to help solve problems "which many people are urging that the Government solve directly". Therefore, priorities must be set on non-defense programs.

EXCISE TAX REVISION

The Administration proposals to extend excise taxes on automobiles and telephone services are likewise inflationary. The F.C.C. is trying to reduce telephone rates. Why not let the "temporary" Korean War excise taxes expire? The same thing applies to automobile excise taxes. Threatened strikes and other factors are going to force up automobile prices. Continuation of the excise tax will force prices even higher.

If there is to be an excise tax, which might be a saving grace if applied fairly, it should be at a very low rate applied equally to all industry at the manufacturer's level, with the possible exception of food and drug industries.

The President estimates that "extension" of scheduled reductions in telephone and automobile excise taxes would provide additional Federal revenues of \$300 millions for fiscal 1968 and over \$2 billions in 1969. The \$2 billion figure for 1969 seems to be a highly questionable estimate.

A SOURCE OF NEW REVENUES

It would be much more simple to collect such additional revenues by a simple tax reduction. This could be done promptly by enacting H.R. 8146, a bill introduced on April 6, 1967 by Congressman James B. Utt. This bill provides for a 50% reduction in the maximum tax rate on long-term capital gains, from 25% to 12½%. Dependable surveys indicate that if this bill were enacted, the Treasury would receive nearly \$700 million more than under present rates. If these surveys were updated, they would indicate that the Treasury's increased revenues from this source would be even greater.

TIMING WRONG

The timing of the President's tax increase proposal seems all wrong. We can as yet see no indication of a big business boom. Ask the steel and auto boys. These are basic industries. Labor uncertainties in the near future are alarming to these industries and could well result in a slump, certainly not a boom.

CONSIDER THE STOCKHOLDER

Under the President's proposals, the individual who is a stockholder will be hit

double since a 10% surcharge on the present 48% corporate rate will raise that rate to 52.8% or more than it was before the reduction of the old 52% rate. The individual will then bear the bite on any dividend distributions.

Because so much of personal income is in the lower tax brackets, a relatively small but constant increase in each of the percentages in the several graduated brackets, say by 2 percentage points, might well produce more tax revenue than the higher-sounding 10% surcharge.

Because inflation is best checked by a tax that reduces consumer income and that bears least heavily upon income likely to be invested, the flat increase in the scale of rates would seem more appropriate economically than the 10% surcharge at this time.

There is talk of making tax surcharges larger for corporations than for individuals. Just remember that, tax-wise, there is no such thing as a "corporation". "Corporations" are only millions of people pooling their invested savings together. The corporate income tax is one of the Treasury's major sources of income. They are paid only out of profits at a rate of 48%.

The remaining earnings distributed to individual stockholders are then taxed at rates from 14% to 70%. It is obvious that if the Treasury wants more income, they should go all out to encourage business expansion and creation of even greater profits. Whenever government attacks profits, it is simply attacking itself. As Senator William Proxmire crisply summarizes, "the crux of my opposition to the President's 10% surtax proposal is that it is dead certain to retard this nation's economic growth".

Gentlemen, our entire Federal tax system must be overhauled. It has become a hodge-podge mess. Its policies must be established and controlled by Congress, and not by the executive branch or its bureaus who are only presumed to enforce our laws and not to make them.

In your tax thinking, gentlemen, just remember that there are over 24,000,000 American investor-shareowners whose savings provide the jobs for our workers in industry and produce under our free-enterprise profit system, the goods and services that have given this nation the highest standard of living in this world. And remember one other thing. This system is called "Capitalism". Karl Marx, in his "Communist Manifesto", stated that the surest way to destroy Capitalism was to impose a heavy progressive income tax and an ever higher inheritance tax. We have already gone too far down this road.

Gentlemen, I thank you.

ABM file

Counter-Deterrence and the ABM

EXTENSION OF REMARKS

OF

HON. BOB WILSON

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, August 29, 1967

Mr. BOB WILSON. Mr. Speaker, that trenchant observer of the American scene, Will Rogers, once observed that in the field of disarmament Americans had a tendency to scrap battleships while their opponents tore up blueprints. Something of this American tendency of an almost extremist good will is in evidence today with reference to the question of anti-ballistic-missile defense. We talk and talk in the hope that we can persuade the Soviet Union to dismantle its present anti-ballistic-missile system

and to refrain from going ahead with further missile defenses. The Soviets stall in the negotiations while continuing to build and deploy their ABM's.

SOVIET CAPABILITIES AND INTENTIONS

The recent study prepared by a special subcommittee of the National Strategy Committee of the American Security Council entitled "The Changing Strategic Military Balance: U.S.A. versus U.S.S.R." has stated that—

The preponderance of evidence points to the conclusion that the Soviet Union is succeeding in its massive drive toward strategic military superiority . . . (and that) the year 1967 falls in a crossover period with the U.S.S.R. estimates ranging between 16,000 and 37,000 (deliverable) megatons, to equal or exceed the U.S. estimated range of between 8,000 and 29,000 (deliverable) megatons.

This study, with its graphic documentation of the Soviet thrust for military-technological superiority, has received, and continues to receive, widespread attention from leading editors and authorities in both the daily and the periodical press. The New York Times, for example, in a front-page story on July 12, 1967, stated that—

The Defense Department did not directly contradict the study's findings, but argued that deliverable megatonnage was not an accurate indicator of "true military capability."

It has been argued in some quarters in the West, however, that Soviet capabilities as illustrated by the Soviet deployment of an ABM system need not be a cause for alarm, since Soviet intentions are peaceful and the cold war is, in fact, over.

But are the Soviet leaders mellowing? Unfortunately, the most recent evidence would appear to indicate that storm flags are flying in the Kremlin. Some storm signals are:

First. The official pronouncement of the Communist Party of the Soviet Union issued June 25, 1967, in a summary of 50 years of bolshevism. It stated that "the domination of imperialism on the world scene has ended" because of the growth of Soviet military power. The statement also singled out the United States as the "main enemy" of the national liberation warfare movement and charged the State of Israel with aggression.

Second. Appointing—for the first time since Beria's execution in 1953—the Soviet secret police chief a member of the ruling Politburo. This is Yuri Andropov, whose promotion was announced June 22, 1967. Since the KGB—the Soviet secret police—have vast responsibilities for waging unconventional warfare around the world, it would appear that giving Andropov such power indicates stepped-up cold war operations.

Third. Writing in the official Soviet Armed Forces newspaper, Red Star, on June 3, 1967, Bulgarian Minister of Defense, General of the Army Dobri Dzhurov, said:

The Soviet Union has always been and will continue to be the main political and material base of the world revolutionary process. (Emphasis added.)

The general also went on to say that—
The Soviet Union constitutes the main support of fighting Vietnam.

Fourth. Soviet escalation of the Vietnam war is another example of the Soviet's true intentions. Soviet shipping going into North Vietnamese ports has shown a marked increase this year over 1966. As of June 1967 the rate was 18 per month, with an additional two to five Soviet satellite ships per month. Indicative of this escalation is the Moscow Radio broadcast of July 28 which stated that Soviet ships "leave Odessa practically every day with cargoes for Vietnam."

Fifth. The recent hard line in the Soviet press which continually attacks Israel, "Zionism," and the United States. In reporting this trend from Moscow, the Washington Post of August 8, 1967, stated that the press campaign was one which "to some senior diplomats here recalls the worst days of the cold war."

These indicators of increasingly "stormy cold war weather" indicate that Soviet strategists understand quite well that revolutionary agitation and propaganda, "peace marchers" in London and New York, guerrillas in Africa and Latin America, are techniques of conflict on a par with guided missiles and nuclear submarines. But does it follow that these same Soviet strategists are unaware of the possibilities for nuclear blackmail of the West in the event that they attain strategic military-technological superiority? Indeed, one may well ask whether the present U.S. limitations on air strikes against military targets in North Vietnam result from the steady accretion of Soviet military-technological power.

CHINESE COMMUNIST NUCLEAR WEAPONS DEVELOPMENT

Even if it were possible to disregard the evidence of the Soviet deployment of an ABM system or systems and the counter-deterrence which this poses to the announced U.S. policy of deterrence, it would be still more difficult to close our minds to the ominous developments in China.

The Chinese Communists exploded their first H-bomb on June 17, 1967. It was apparently a sophisticated implosion type in the two-to-seven megaton range. The complicated electronic triggering and measuring devices that would appear to have been required, in this and other nuclear tests, would be of great assistance to the Chinese in building an intercontinental missile. Since the Chinese progress in nuclear weapons development has been faster and more effective than had been anticipated by Western sources, it may be that they will also develop a nuclear ICBM delivery capability sooner than the mid-1970's, which is the time phase previously estimated by Western sources. Moreover, the Chinese now possess the design capability for a multimegaton thermonuclear weapon which can be delivered by aircraft.

The possibilities of the Chinese Communists exercising nuclear blackmail against Southeast Asia countries, Japan, or, indeed, against the United States are

underscored in a report released August 3, 1967, by the Joint Congressional Committee on Atomic Energy. The committee said:

We believe that the Chinese will continue to place a high priority on thermonuclear weapons development. With continued testing we believe they will be able to develop a thermonuclear warhead in the ICBM weight class with a yield in the megaton range by about 1970. We believe that the Chinese can have an ICBM system ready for deployment in the early 1970's. On the basis of our present knowledge, we believe that the Chinese probably will achieve an operational ICBM capability before 1972. Conceivably, it could be ready as early as 1970-1971.

The Joint Committee then went on to sound a warning about the direct threat to U.S. national security posed by Chinese Communist nuclear weapons developments by pointing out that—

Most significant for the United States is the fact that a low order of magnitude attack could possibly be launched by the Chinese Communists against the United States by the early 1970's. At present we do not have an effective anti-ballistic-missile system which could repel such a suicidal (for the Chinese) but nevertheless possible strike.

THE STABILIZING VALUE OF A U.S. ABM SYSTEM

In the final analysis, the value of a system of deterrence is that which the enemy believes about it. If the Soviets believe that the U.S. deterrent offensive force can be neutralized by their ABM systems to a point at which the Soviet warmaking capability will sustain only an acceptable level of damage—and, of course, their acceptable level may be much higher than ours—then they have achieved a counter-deterrence posture which may lead them to risk—at a given crisis in international relations—a nuclear war.

Equally, if at some future point the Chinese Communists should believe—in the absence of a U.S. ABM system—that there is somewhat more of a "suicidal" element for the United States than for them in a nuclear war, they might, in a given confrontation, launch a surprise nuclear attack on America.

The evidence of the post-World War II period suggests that it has been the stabilizing factor of U.S. military-technological power which has prevented a general war. Today, under the impact of both the Soviet and Chinese Communist military-technological thrust, that stability appears to be threatened. Would the production and deployment of a U.S. ABM system—perhaps even on a crash basis as a clear demonstration of credibility—have a definite stabilizing value on world politics? That it might well do so is indicated by the thoughtful and carefully measured words of the Senate Appropriations Committee. In reporting on the Defense Department appropriation bill for fiscal 1968—August 4, 1967—the committee said:

It is the view of the Committee that the deployment of the Nike-X antiballistic missile system should be initiated immediately, and the Committee urges the executive branch of the Government to take action accordingly.